

**AVATAR, INC.**  
**REPORT ON CONTRACT FINANCIAL COMPLIANCE**  
**CALENDAR YEAR 1998**

**DEPARTMENT OF ADMINISTRATION**  
**BUREAU OF AUDITS**  
**ONE CAPITOL HILL**  
**PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TEL #: (401) 222-2768  
FAX #: (401) 222-3973

Avatar, Inc.

REPORT ON CONTRACT FINANCIAL COMPLIANCE

Calendar Year 1998

EXECUTIVE SUMMARY

The prior audit report issued on August 3, 1998 by the Bureau of Audits, cited one Department of Human Services (DHS) recommendation which was subsequently implemented.

Based on our contract compliance engagement for the calendar years 1994 through 1998, we determined the following:

1. The amount of \$6,039 should be recovered from the Provider by DHS in accordance with its current funding policy.
2. The amount of \$107,204 should be recovered from the Provider by MHRH as excess funding or reprogrammed by the Provider upon written agreement with MHRH in accordance with the applicable contract provisions and policy.
3. That the Department of MHRH require the provider to maintain resident earned income separate from other resident funds in accordance with RI/DHS regulations.

AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
TRANSMITTAL LETTERS .....	1
SCOPE AND PURPOSE .....	3
BACKGROUND .....	5
AUDITOR'S OPINION .....	6
FINANCIAL INFORMATION:	
Statement of Revenues and Expenses:	
Exhibit A: Total .....	10
Exhibit B: Residential Waiver Program, Calendar Year 1998 .....	12
Notes to Financial Information .....	16
FINDINGS AND RECOMMENDATIONS	
Status of Prior Audit Recommendations - Calendar Years 1992 and 1993 .....	17
Current Year Findings and Recommendations	
<u>Department of Human Services</u>	
Amount Due to/(from) DHS - ICF/MR .....	18
<u>Department of Mental Health, Retardation and Hospitals</u>	
Determination of Excess Funding .....	19
Waiver Residential Program .....	20
Review of Resident Funds .....	21



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TEL #: (401) 222-2768  
FAX #: (401) 222-3973

April 9, 2001

Ms. Christine Ferguson, Director  
Department of Human Services  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Ferguson:

We have examined the cost report submitted by Avatar, Inc., for the calendar year 1998. As part of this examination we reviewed the information submitted on the cost reports for 1994 through 1997 for the following DHS Funded Intermediate Care Facilities for the Mentally Retarded (ICF/MR):

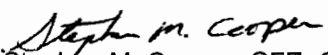
<u>Facility</u>	<u>License Number</u>
Bertenshaw Group Home	219
Dexter Rock Group Home	317

This report represents the audited Cost Report for the year ended December 31, 1998. For settlement purposes this report includes calendar years 1994 through 1997.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the R.I. General Laws requires the director of the department audited to respond in writing within 60 days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert L. Carl, Jr., Ph.D., Director, Department of Administration; Honorable Antonio J. Pires, Chairman of the House Finance Committee; and Honorable Frank T. Caprio, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of Human Services and to the director and staff members of Avatar, Inc., for their assistance and cooperation during the course of this engagement.

Sincerely,

  
Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TEL #: (401) 222-2768  
FAX #: (401) 222-3973

April 9, 2001

Ms. A. Kathryn Power, Director  
Department of MHRH  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Power:

We have examined the cost report submitted by Avatar, Inc., for the following MHRH funded programs for the calendar year 1998.

Programs

Waiver Funded Residential Program  
Conversion Waiver Program

The report represents the audited Cost Report for the year ended December 31, 1998. For settlement purposes this report includes calendar years 1994 through 1997.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the director of the department audited to respond in writing within 60 days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Robert L. Carl, Jr., Ph.D., Director, Department of Administration; Honorable Antonio J. Pires, Chairman of the House Finance Committee; and Honorable Frank T. Caprio, Chairman of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of Mental Health, Retardation and Hospitals and to the director and staff members of Avatar, Inc., for their assistance and cooperation during the course of this examination.

Sincerely,

Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits

SMC:pb

AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

SCOPE AND PURPOSE

The purpose of this engagement was to audit the most current year cost report (1998) submitted by providers of services funded by the Department of Human Services and the Department of Mental Health, Retardation and Hospitals and make settlements for that year and also make settlements for all prior unaudited years. The review of prior unaudited years (1994-1997) was limited to reviewing selected accounts and making adjustments based on risk factors developed through the testing of the current year accounts, the prior field audit, prior year cost reports and sampling.

By funding source the purpose of this audit was to determine:

DHS Programs

- whether expenses were allowable in accordance with the principles of reimbursement.
- through the verification of census records the total client days used in calculating audited per diem rates.
- any over or under funding on behalf of the Department of Human Services.
- if the clients clothing funds, personal needs funds, and client wages were properly maintained in accordance with the prescribed guidelines.

MHRH Programs

- whether expenses reported per the cost reports were in accordance with the terms of the contracts.
- whether revenues were reported accurately on the cost reports.
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our audit of DHS programs was made in accordance with the "Federal Medicare Principles of Reimbursement" issued by the Social Security Administration, Bureau of Health Insurance HIM-15 adopted by the State of Rhode Island with the exclusion of return of net equity and the approved providers' operating budgets. Additionally, we have audited the Clients' Clothing Account Funds in accordance with the "Principles for Skilled Nursing and Intermediate Care Facilities," and the Clients' Personal Needs Funds in accordance with the "Uniform Accountability Procedures for Title XIX Patient Personal Needs Funds in Skilled Nursing and Intermediate Care Facilities."

Our audit of the financial records included verification of revenues and expenses through testing procedures which were deemed necessary in the circumstances.

AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

BACKGROUND

Title 40.1-21-4 of the General Laws of the State of Rhode Island authorizes the Director of the Department of Mental Health, Retardation and Hospitals to be responsible for "planning and developing a complete, comprehensive and integrated statewide program for the developmentally disabled." Said programs may include but are not limited to: various type workshop activities, programs to alleviate and ameliorate developmental problems, physical activities, health consultation, and transportation problems.

Avatar, Inc., located at 33 College Hill Road, Warwick, Rhode Island is a Subchapter S corporation providing residential services to the developmentally disabled. The business of the corporation is managed by the stockholders, who may exercise all such powers of the corporation and do all such lawful acts and things as the corporation might do.

On June 30, 1996 the Bertenshaw and Dexter Rock Group Homes were converted from Intermediate Care Facilities for the Mentally Retarded (ICF/MR's) to Waiver Funded Residential Facilities for developmentally disabled citizens.





STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TEL #: (401) 222-2768  
FAX #: (401) 222-3973

Ms. Christine Ferguson, Director  
Department of Human Services  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Ferguson:

We have performed the procedures enumerated below, which were agreed to by the Department of Human Services (DHS) and Avatar, Inc. (Provider), solely to assist the users in evaluating the Provider's assertion about their compliance with DHS's Principles of Reimbursement H.I.M.-15 to the service provider cost reports, Clients' Clothing Account Funds to DHS's Principles for Skilled Nursing and Intermediate Care Facilities and Clients' Personal Needs Funds to DHS's Procedures for Title XIX Patient personal Needs Funds in Skilled Nursing and Intermediate Care Facilities for the calendar year 1998. Further, to provide for greater and more timely coverage we have applied an agreed-upon strategic plan to calendar years 1994 through 1996 which allows us to review and adjust these prior year cost reports based on current year findings as well as other risk factors. For settlement purposes this report includes those cost reports based on that strategic plan. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


Based on the application of the procedures referred to above, we determined a final rate settlement for the ICF/MR's for the calendar years 1994 through 1996 with provisions of DHS's Principles of Reimbursement H.I.M.-15, and determined ending client fund balances for the calendar years 1994 through 1996 with provisions of DHS's Principles for skilled Nursing and Intermediate Care Facilities, and Uniform Accountability Procedures for Title XIX Patient Personal Needs Funds in Skilled Nursig and Intermediate Care Facilities. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

Ms. Christine Ferguson, Director  
Page 2

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion of assertion by the Provider's management. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of DHS and the Provider and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

  
Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits  
July 13, 2000

SMC:pb



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration  
BUREAU OF AUDITS  
One Capitol Hill  
Providence, R.I. 02908-5889  
TEL #: (401) 222-2768  
FAX #: (401) 222-3973

Ms. Kathryn Power, Director  
Department of Mental Health, Retardation and Hospitals  
600 New London Avenue  
Cranston, RI 02920

Dear Ms. Power:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and Avatar, Inc., (Provider), solely to assist the users in evaluating the Provider's assertion about their compliance to the financial terms and conditions contained within the Waiver Residential Program for Developmentally Disabled Citizens contracts during the calendar year 1998. Further, to provide for greater and more timely coverage we have applied an agreed-upon strategic plan to calendar years 1994 through 1997 which allowed us to review and adjust these prior year cost reports based on current year findings as well as other risk factors. For settlement purposes this report includes those cost reports for calendar years 1994 through 1998 based on that strategic plan. This agreed-upon procedure engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

For purposes of this engagement we made a determination as to the reasonableness of allowable costs based on the "prudent person rule", accuracy of reported activities and if any overall surplus funding was provided by MHRH.

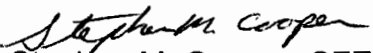
Based on the application of the procedures referred to above, we became aware of an overall surplus by MHRH for the calendar year(s) 1994 through 1998, and an instance of noncompliance to a provision contained in the financial terms and conditions to the Waiver Residential Program contract. These matters are discussed in the accompanying "Findings and Recommendations" section of this report.

Ms. Kathryn Power, Director  
Page 2

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion of assertion by the Provider's management. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of MHRH and the Provider and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

  
Stephen M. Cooper, CFE, CGFM  
Chief, Bureau of Audits  
July 13, 2000

SMC:pb

AVATAR, INC.  
STATEMENT OF REVENUES AND EXPENSES - TOTAL  
CALENDAR YEAR 1998

Account Description	Total	Administrative	Conversion Waiver Program	Waiver Resident Program	Other Programs	Agency
<b>Revenues</b>						
State of Rhode Island						
Department of MHRH	\$ 3,795,747	-	300,417	3,495,330	-	-
Department of Human Services						
Room & Board	-	-	-	-	-	-
Social Security Inc.	231,637	-	6,627	225,010	-	-
Client Excess Earnings	25,759	-	-	25,759	-	-
Interest Income	5,841	-	-	-	-	5,841
Miscellaneous	32,256	-	-	-	8,515	23,741
Day Program	2,886	-	-	2,886	-	-
<b>Total Revenues</b>	<b>\$ 4,094,128</b>	<b>-</b>	<b>307,044</b>	<b>3,748,985</b>	<b>8,515</b>	<b>29,582</b>
<b>Expenses</b>						
Wages	\$ 2,525,650	228,711	202,340	2,085,676	8,923	-
Retirement	10,809	1,088	826	8,915	-	-
Health Insurance	190,700	17,942	15,266	157,492	-	-
Other Fringes	11,809	11,153	-	656	-	-
Physical Therapist	1,595	-	-	1,595	-	-
Speech Therapist	2,000	2,000	-	-	-	-
Occup. Therapist	972	-	-	972	-	-
Psychologist	26,312	-	4,702	21,610	-	-
Other	17,368	5,368	12,000	-	-	-
Office Supplies	28,383	22,046	-	3,560	-	2,777
Telephone	16,067	6,285	235	7,547	-	-
Travel - Motor Vehicle	17,416	1,360	-	15,603	-	453
Travel - Employees	53,541	4,021	18,493	31,027	-	-
Conventions, Meetings	29,595	20,256	499	8,840	-	-
Adv. - Help Wanted	1,099	290	-	809	-	-
Organizational Dues	18,699	11,848	-	6,851	-	-
Accounting & Auditing	29,732	29,732	-	-	-	-
Legal Services	9,900	9,900	-	-	-	-
Payroll Taxes	291,789	23,803	20,780	248,479	707	-
Insurance	55,234	4,927	4,328	45,762	-	217
Miscellaneous	16,156	5,075	23	4,992	-	6,066
HCPA - Provider Tax	225,910	-	-	225,910	-	-
Real Estate -						
Personal Property Taxes	7,289	1,533	-	5,756	-	-
Rent/Lease of Building	33,012	20,825	-	12,187	-	-
Lease of Equipment	10,873	10,873	-	-	-	-
Lease of Vehicles	49,274	6,553	-	40,536	-	2,185
Building Depreciation	5,843	-	-	5,843	-	-
Building Impr. Depr.	733	-	-	733	-	-
Equipment Depr.	4,696	4,696	-	-	-	-
Fuel	12,639	730	44	11,865	-	-
Electricity	21,600	1,712	1,816	18,072	-	-
Water & Sewerage	6,824	38	-	6,786	-	-
Plant Supplies	10,812	1,207	433	9,172	-	-
Purchased Services &						
Repairs	40,934	24,279	1,089	15,566	-	-
Food & Kitchen Suppl.	80,088	-	2,400	77,666	-	-
Housekeeping Supplies	21,859	-	832	21,027	-	-
Pharmacy Supplies	15,175	-	691	14,484	-	-
Recreational Supplies	4,059	-	900	3,159	-	-
<b>Subtotal</b>	<b>\$ 3,906,404</b>	<b>480,231</b>	<b>287,697</b>	<b>3,117,146</b>	<b>9,630</b>	<b>11,698</b>
Allocation of Administrative Expenses	-	(480,231)	42,452	437,779	-	-
<b>Total Expenses</b>	<b>\$ 3,906,404</b>	<b>-</b>	<b>330,149</b>	<b>3,554,927</b>	<b>9,630</b>	<b>11,698</b>
Net Excess (Deficiency) of Revenue Over Expenses	<b>\$ 187,722</b>	<b>-</b>	<b>(23,105)</b>	<b>194,058</b>	<b>(1,115)</b>	<b>17,884</b>

See accompanying notes to financial information.

:SP-43a

AVATAR, INC.  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1998

Account Description	Combined	Total Waiver Program State	Client	New River State	Client	Garden Hills State	Client	Jillson State	Client	Audubon State	Client
<b>Revenues</b>											
State of Rhode Island											
Department of MHRH	\$ 3,495,330	3,495,330	-	527,648	-	345,747	-	532,091	-	258,841	-
Social Security Income	225,010	-	225,010	-	35,484	-	22,241	-	34,184	-	13,461
Clients Excess Earnings	25,759	25,759	-	8,760	-	2,533	-	4,317	-	3,422	-
Day Program	2,886	2,886	-	-	-	-	-	-	-	-	-
<b>Total Revenues</b>	<b>\$ 3,748,985</b>	<b>3,523,975</b>	<b>225,010</b>	<b>536,408</b>	<b>35,484</b>	<b>348,280</b>	<b>22,241</b>	<b>536,408</b>	<b>34,184</b>	<b>262,263</b>	<b>13,461</b>
<b>Expenses</b>											
Wages	\$ 2,085,676	2,071,835	13,841	284,201	2,177	196,587	1,249	304,087	2,089	142,826	155
Retirement	8,915	8,915	-	1,225	-	845	-	1,308	-	611	-
Health Insurance	157,492	157,492	-	21,909	-	15,069	-	23,217	-	10,755	-
Other Fringes	656	656	-	140	-	64	-	60	-	92	-
Physical Therapist	1,595	1,595	-	90	-	-	-	-	-	-	-
Occupational Therapist	972	972	-	486	-	87	-	56	-	-	-
Psychologist	21,610	21,610	-	-	-	4,053	-	-	-	6,778	-
Office Supplies	3,560	3,560	-	426	-	278	-	774	-	230	-
Telephone	7,547	7,547	-	484	-	664	-	695	-	403	-
Travel - Motor Vehicle	15,603	15,603	-	2,282	-	965	-	2,607	-	-	-
Travel - Employees	31,027	31,027	-	3,841	-	5,564	-	1,470	-	5,424	-
Conventions, Meetings	8,840	8,840	-	849	-	1,036	-	789	-	736	-
Adv. - Help Wanted	809	809	-	59	-	36	-	57	-	7	-
Organizational Dues	6,851	6,851	-	1,011	-	645	-	1,022	-	484	-
Payroll Taxes	246,479	246,479	-	33,611	-	23,771	-	36,500	-	16,520	-
Insurance	45,762	45,762	-	6,284	-	4,340	-	6,716	-	3,136	-
Miscellaneous	4,992	4,992	-	175	-	876	-	619	-	1195	-
HCPA - Provider Tax	225,910	225,910	-	34,415	-	22,344	-	34,416	-	16,827	-
Real Estate -											
Personal Prop. Taxes	5,756	-	5,756	-	-	-	4,140	-	-	-	-
Rent/ Lease of Building	12,187	-	12,187	-	-	-	-	-	-	-	6,937
Lease of Vehicles	40,536	40,536	-	7,665	-	2,096	-	6,539	-	-	-
Building Depreciation	5,843	-	5,843	-	-	-	3,366	-	-	-	-
Building Impr. Depr.	733	-	733	-	-	-	578	-	-	-	-
Fuel	11,865	-	11,865	-	2,644	-	722	-	651	-	945
Electricity	18,072	-	18,072	-	2,649	-	1,677	-	2,859	-	896
Water & Sewerage	6,786	-	6,786	-	1,466	-	608	-	1,161	-	527
Plant Supplies	9,172	-	9,172	-	913	-	518	-	1,773	-	159
Purchased Services											
& Repairs	15,566	-	15,566	-	1,351	-	1,121	-	2,522	-	1,021
Food & Kitchen Supplies	77,666	-	77,666	-	10,959	-	7,813	-	11,309	-	5,847
Housekeeping Supplies	21,027	-	21,027	-	3,264	-	1,481	-	3,393	-	823
Pharmacy Supplies	14,484	-	14,484	-	3,225	-	548	-	1,906	-	144
Recreational Supplies	3,159	-	3,159	-	699	-	361	-	471	-	152
<b>Subtotal</b>	<b>3,117,148</b>	<b>2,900,991</b>	<b>216,157</b>	<b>399,153</b>	<b>29,347</b>	<b>279,320</b>	<b>24,182</b>	<b>420,932</b>	<b>28,134</b>	<b>206,024</b>	<b>17,606</b>
Allocation of Administrative Expenses	437,779	437,779	-	60,125	-	41,540	-	64,255	-	30,014	-
<b>Total Expenses</b>	<b>3,554,927</b>	<b>3,338,770</b>	<b>216,157</b>	<b>459,278</b>	<b>29,347</b>	<b>320,860</b>	<b>24,182</b>	<b>485,187</b>	<b>28,134</b>	<b>236,038</b>	<b>17,606</b>
Excess (Deficiency) of Revenues Over Expens	194,058	185,205	8,853	77,130	6,137	27,420	(1,941)	51,221	6,050	26,225	(4,145)

See accompanying notes to financial information.

AVATAR, INC.  
STATEMENT OF REVENUES AND EXPENSES - RESIDENTIAL WAIVER PROGRAM  
CALENDAR YEAR 1998

Account Description	Pine Orchard		Dexter Rock		Bertenshaw		Buttonwoods		Sherman	
	State	Client	State	Client	State	Client	State	Client	State	Client
<b>Revenues</b>										
State of Rhode Island										
Department of MHRH	\$ 253,480	-	528,314	-	534,737	-	247,222	-	267,250	-
Social Security Income	-	16,797	-	33,560	-	35,851	-	15,866	-	17,566
Clients Excess Earnings	1,888	-	3,921	-	-	-	918	-	-	-
Day Program	2,792	-	-	-	-	-	94	-	-	-
<b>Total Revenues</b>	<b>\$ 258,160</b>	<b>16,797</b>	<b>532,235</b>	<b>33,560</b>	<b>534,737</b>	<b>35,851</b>	<b>248,234</b>	<b>15,866</b>	<b>267,250</b>	<b>17,566</b>
<b>Expenses</b>										
Wages	\$ 169,434	1,426	322,464	2,059	311,161	1,699	206,222	1,282	134,853	1,705
Retirement	730	-	1,386	-	1,337	-	886	-	587	-
Health Insurance	12,721	-	24,428	-	23,540	-	15,372	-	10,481	-
Other Fringes	52	-	68	-	62	-	71	-	47	-
Physical Therapist	-	-	90	-	1,190	-	225	-	-	-
Occupational Therapist	-	-	86	-	257	-	-	-	-	-
Psychologist	2,881	-	2,835	-	-	-	4,433	-	630	-
Office Supplies	217	-	549	-	424	-	475	-	187	-
Telephone	1,420	-	1,029	-	787	-	1,019	-	1,046	-
Travel-Motor Vehicle	-	-	4,653	-	2,158	-	-	-	2,938	-
Travel-Employees	4,334	-	2,383	-	1,366	-	6,097	-	548	-
Conventions, Meetings	1,209	-	1,141	-	863	-	1,593	-	624	-
Adv.-Help Wanted	117	-	326	-	83	-	117	-	7	-
Organizational Dues	483	-	1,104	-	1,136	-	483	-	483	-
Payroll Taxes	20,786	-	37,064	-	38,055	-	23,082	-	17,090	-
Insurance	3,747	-	7,119	-	6,863	-	4,551	-	3,006	-
Miscellaneous	611	-	656	-	282	-	503	-	75	-
HCPA-Provider Tax	16,385	-	34,147	-	34,308	-	15,921	-	17,147	-
Real Estate -										
Personal Prop. Taxes	-	152	-	-	-	-	-	-	-	1,464
Rent/Lease of Building	-	5,250	-	-	-	-	-	-	-	-
Lease of Equipment	-	-	-	-	-	-	-	-	-	-
Lease of Vehicles	-	-	7,048	-	9,923	-	-	-	7,265	-
Building Depreciation	-	851	-	-	-	-	-	-	-	1,626
Building Impr. Depr.	-	-	-	-	-	-	-	-	-	155
Fuel	-	984	-	1,398	-	2,536	-	602	-	1,383
Electricity	-	1,251	-	2,991	-	3,469	-	1,191	-	1,089
Water & Sewerage	-	78	-	1,412	-	1,111	-	-	-	423
Plant Supplies	-	960	-	1,779	-	1,630	-	648	-	792
Purchased Services										
& Repairs	-	777	-	3,545	-	2,753	-	803	-	1,673
Food & Kitchen Supplies	-	5,949	-	11,787	-	12,468	-	4,881	-	6,653
Housekeeping Supplies	-	587	-	2,684	-	4,726	-	1,853	-	2,216
Pharmacy Supplies	-	466	-	1,931	-	4,819	-	593	-	852
Recreational Supplies	-	132	-	382	-	87	-	500	-	375
<b>Subtotal</b>	<b>\$ 235,127</b>	<b>18,863</b>	<b>448,576</b>	<b>29,968</b>	<b>433,795</b>	<b>35,298</b>	<b>281,050</b>	<b>12,353</b>	<b>197,014</b>	<b>20,406</b>
Allocation of Administrative Expenses	35,873	-	68,097	-	65,648	-	43,557	-	28,670	-
<b>Total Expenses</b>	<b>\$ 271,000</b>	<b>18,863</b>	<b>516,673</b>	<b>29,968</b>	<b>499,443</b>	<b>35,298</b>	<b>324,607</b>	<b>12,353</b>	<b>225,684</b>	<b>20,406</b>
Excess (Deficiency) of Revenues over Expense	\$ (12,840)	(2,066)	15,562	3,592	35,294	553	(76,373)	3,513	41,566	(2,840)

See accompanying notes to financial information.

AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

NOTES TO FINANCIAL INFORMATION

Note 1 - Significant Accounting Policies

Basis of Accounting

The financial statements are presented on the accrual basis of accounting which is in compliance with MHRH's "Prudent Person Rule" and DHS's Principles of Reimbursement HIM-15. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred.

Depreciation

Depreciation costs are based on the straight-line method which is in compliance with MHRH's "Prudent Person Rule" and DHS's Principles of Reimbursement HIM-15.

Note 2 - Excess (Deficiency) of Revenue Over Expenses

The State's method of reimbursement for ICF/MR facilities is based solely on audited expenses and, therefore, does not take into account the excess or deficiency of revenue over expenses.



AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

FINDINGS AND RECOMMENDATIONS

Status of Prior Audit Recommendations Calendar years 1992 -1993

Recommendation for DHS

1. The amount of \$820.53 should be paid to Avatar, Inc., by the Department of Human Services in accordance with its current funding policy.

Implemented.

AVATAR, INC.  
REPORT ON CONTRACT FINANCIAL COMPLIANCE  
CALENDAR YEAR 1998

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

DHS Programs

Amounts Due to DHS

As a result of our audit, it has been determined that a net amount of \$6,039 is due to the Department of Human Services from Avatar, Inc., and is summarized as follows:

<u>Prior Years</u>	
ICF/MR Per Diem Rates	\$ 6,039
Day Rates	-
Payment Adjustments	<u>-</u>
Total Due to DHS	\$ <u>6,039</u>

The above settlement by facility is as follows:

<u>Facility</u>	<u>Total</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Dexter Rock	\$ 3,010	624	1,152	1,234
Bertenshaw	<u>3,029</u>	<u>615</u>	<u>1,126</u>	<u>1,288</u>
Total Due to DHS	\$ <u>6,039</u>	<u>1,239</u>	<u>2,278</u>	<u>2,522</u>

Recommendation

1. The amount of \$6,039 should be recovered from Avatar, Inc., by the Department of Human Services in accordance with its current funding policy.

## MHRH Programs

### Determination of Excess Funding

The Department of MHRH and the Providers have agreed "that in each particular contract year, any surplus incurred by the Provider in operating one or more of its programs, wherein funding for same is received by the Department of Mental Health, Retardation and Hospitals and/or the Department of Human Services, shall be used/can be used by the Provider to offset any losses incurred by the Provider in one or more of the programs above-referred." Any net surpluses by each particular contract year incurred by the Provider "shall be returned to the State of Rhode Island in such manner as it may prescribe, or shall be used by the Provider in a manner which has been approved by written agreement with the State of Rhode Island." This policy is applicable to all MHRH contracts beginning with calendar year 1986.

As a result of our audit it has been determined that there are excess funds in the amount of \$107,204 based upon the aforementioned policy and the individual contract requirements. The following is a summary of the individual program excesses or deficits and combined results for each year.

	Net Excess Due to <u>MHRH</u>	<u>Conversion</u> <u>Waiver Program</u>	<u>Waiver Program</u>
1997	\$ 64,286	11,016	53,270
1996	21,464	8,415	13,049
1995	15,718	15,718	-
1994	<u>5,736</u>	<u>5,736</u>	<u>-</u>
Total	<u>\$107,204</u>	<u>40,885</u>	<u>66,319</u>

	<u>Net Deficit</u>	<u>Conversion</u> <u>Waiver Program</u>	<u>Waiver Program</u>
1998	<u>(4,839)</u>	<u>(23,105)</u>	<u>18,266</u>

### Recommendation

2. The amount of \$ 107,204 should be recovered from Avatar, Inc., by the Department of MHRH as excess funding or be reprogrammed by the provider upon written agreement with MHRH in accordance with the applicable contract provisions and policy.

Details pertaining to this settlement are as follows:

#### Waiver Residential Program

The Waiver contract for the fiscal year ended June 30, 1998 stated that "if the Audit or calendar year cost report reveals total payment to the Provider under the Agreement is greater than one hundred five (105%) percent of total allowable cost for the above specified programs covered by this agreement the parties agree that the excess funding over one hundred five (105%) percent will be returned by the Provider." This provision was also in the contracts for 1995 through 1997.

<u>Period</u>	<u>Total MHRH Payments to Provider</u>	<u>105% of Allowable Expenses</u>	<u>Net Excess Funding</u>
1998	\$ 3,523,975	3,505,709	18,266
<u>Prior Years</u>			
1997	3,282,256	3,228,986	53,270
1996	2,475,140	2,462,091	13,049
1995	1,812,550	1,814,484	-
1994	1,610,745	1,658,459	-

#### Resident Funds

Addendum III, Section K of the Waiver Residential Program contract states that "unless the parties otherwise agree to a different provision regarding a resident's earned income, resident income shall be treated in accordance with RI/DHS regulations relating thereto." These regulations require earned income to be maintained separately from personal needs or clothing funds.

Our review disclosed that Avatar, Inc. commingles residents' earned income with personal needs funds. Since no agreement exists to preclude the requirement to maintain these funds separately Avatar, Inc. is not in compliance with this requirement.

#### Recommendations

3. MHRH should require Avatar, Inc. to maintain residents' earned income in accordance with RI/DHS regulations as required by the Waiver Residential Program contract.